

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AGR-10 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /121 W

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R 241851Z JUL 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3164

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR UK EC

SUBJECT: GREEN POUND DEVALUATION - EFFECT ON BRITISH
FARM AND RETAIL FOOD PRICES

SUMMARY: THE 5 PERCENT DEVALUATION IN THE VALUE OF THE UK
GREEN POUND AGREED BY EC FARM MINISTERS' MEETING IN
BRUSSELS ON JULY 22 SHOULD RAISE RECEIPTS OF BRITISH
FARMERS BY 100 MILLION POUNDS PER YEAR BUT WILL ADD AN
ESTIMATED 1 PERCENT TO THE RETAIL FOOD PRICE INDEX.
CONSUMER PRICES OF DAIRY PRODUCTS WILL PROBABLY RISE BY
THE GREATEST MARGIN. NATIONAL FARMERS' UNION PRESIDENT
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DESCRIBED THE EXTENT OF THE DEVALUATION AS "QUITE

INADEQUATE." END SUMMARY.

1. THE 5 PERCENT DEVALUATION IN THE VALUE OF THE UK GREEN POUND AGREED AT THE EC COUNCIL OF AGRICULTURAL MINISTERS' MEETING ON JULY 22 REDUCES THE RATE FROM ONE POUND STERLING EQUALS 1.96178 UA WHICH HAS BEEN IN FORCE SINCE MARCH 3 LAST TO ONE POUND EQUALS 1.86369 UA. THE DEVALUATION TAKES EFFECT FROM AUGUST 4. THE EFFECT OF THE DEVALUATION WILL BE TO RAISE UK FARM PRICES FOR CAP COMMODITIES IN TERMS OF STERLING BY 5 PERCENT. FOR EXAMPLE, THE UK INTERVENTION PRICE FOR WHEAT, WEST COAST BASIS FOR AUGUST 1975 WILL GO UP FROM 51.43 POUNDS PER LONG TON TO 54.00 POUNDS WHILE THE WEST COAST INTERVENTION PRICE FOR BARLEY WILL RISE FROM 44.48 POUNDS TO 46.70 POUNDS. THE UK FARM PRICE OF OTHER CAP COMMODITIES WILL ALSO RISE BUT IN A LESS STRAIGHTFORWARD WAY. IN THE DAIRY SECTOR THE GOVERNMENT INTENDS TO INCREASE THE GUARANTEED PRICE OF MILK BY 2P. PER IMPERIAL GALLON FROM SEPTEMBER 1 TO AN AVERAGE OF 36.75P. ON BEEF, WHERE THE UK'S ARRANGEMENTS DIFFER FROM THOSE IN THE REMAINDER OF THE COMMUNITY IN THE HOPE OF AVOIDING INTERVENTION STOCKS OF BEEF ACCUMULATING IN GREAT BRITAIN, A NEW RISING SCALE OF "GUARANTEED" PRICES IS PLANNED TO GO FROM THE PRESENT LEVEL OF 21.90 POUNDS PER LIVE CWT (112 LBS.) TO AROUND 26.00 POUNDS PER CWT BY FEBRUARY WITH THE AIM OF ENCOURAGING PRODUCERS TO HOLD ON TO THEIR CATTLE OVER THE WINTER RATHER THAN FLOOD THE MARKET BETWEEN AUGUST AND NOVEMBER WHEN THERE IS OFTEN A SEASONAL MARKETING GLUT AND A SHARP FALL IN PRICES. CONSIDERING ALL COMMODITIES, THE EXTRA AMOUNT WHICH WILL ACCRUE TO BRITISH FARMERS IN STERLING FROM THE DEVALUATION IS TO BE 100 MILLION POUNDS.

2. THE DEVALUATION WILL ALSO RAISE THE PRICE OF UK AGRICULTURAL IMPORTS. FOR EXAMPLE, MONETARY COMPENSATORY AMOUNTS WHICH HELP SUBSIDISE UK IMPORTS HAVE BEEN RISING AS THE TRUE VALUE OF STERLING HAS BEEN FALLING. THE GREEN POUND DEVALUATION WILL REDUCE THE AMOUNT BEING PAID OUT IN MCA'S. IT IS ESTIMATED THAT THE VALUE OF SUBSIDIES ON BRITISH IMPORTS OF AGRICULTURAL PRODUCTS PAID BY THE COMMUNITY WILL FALL BY AROUND 50 MILLION UNCLASSIFIED

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POUNDS A YEAR.

3. AT RETAIL LEVEL THE ADJUSTMENT IN THE GUARANTEED PRICE OF MILK WILL RAISE THE CONSUMER PRICE BY 1P. PER PINT, BUTTER IS EXPECTED TO RISE BETWEEN 1 1/2-2P. PER LB. AND CHEESE BY 1-2P. PER LB. ANOTHER SIGNIFICANT ITEM IN UK IMPORTS FROM THE REMAINDER OF THE COMMUNITY WHICH HAS BENEFITTED FROM THE SUBSIDY EFFECT OF MCA'S IS

BACON WHICH IS ALSO EXPECTED TO BECOME MORE EXPENSIVE.
THE IMPACT ON THE CONSUMER PRICE OF GRAIN-BASED FOODS IS
LIKELY TO BE LESS CLEAR CUT. THE WHEAT RAW MATERIAL COST
OF PRODUCING BREAD IS ESTIMATED TO BE ONLY ABOUT 20
PERCENT OF THE RETAIL PRICE. IN ANY CASE, MORE WILL
DEPEND UPON THE SIZE OF THE NORTH AMERICAN HARVESTS AND
THE LEVEL OF PRICES OF HARD WHEATS AND THE SIZE OF THE
LEVIES OF THIS WHEAT. PRICES OF OTHER BAKERY PRODUCTS
ARE ALSO DIFFICULT TO FORECAST SINCE ALTHOUGH SOFT WHEAT
PRICES USED FOR BISCUITS, CAKES AND HOUSEHOLD FLOUR WILL

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BE RAISED BY THE DEVALUATION, THE CURRENT LOWER PRICES FOR SUGAR COULD BE AN OFFSETTING FACTOR.

4. PRICES OF ANIMAL FEED STUFFS, PARTICULARLY THOSE INCORPORATING A HIGH PROPORTION OF EC-GROWN WHEAT AND BARLEY WILL BE AFFECTED, ALTHOUGH HERE TOO POSSIBLE PRICE FALLS IN THE COSTS OF OTHER RAW FEED MATERIALS COULD OFFSET OR EVEN OUTWEIGH THE COST INCREASES FOR THE CEREALS CONTAINED.

COMMENT: THE PRESIDENT OF THE UK NATIONAL FARMERS' UNION, SIR HENRY PLUMB, DESCRIBED THE DEVALUATION AS QUITE UNCLASSIFIED

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INADEQUATE TO RESOLVE THE PROBLEMS FACING THE BRITISH FARMING COMMUNITY. THE NFU HAS BEEN PRESSING STRONGLY FOR SEVERAL MONTHS FOR A GREEN POUND VALUE WHICH WOULD WHOLLY REFLECT THE FALL IN THE VALUE OF STERLING AGAINST OTHER FOREIGN CURRENCIES; THE GREEN POUND HAS BEEN NEARER 20 PERCENT THAN 5 PERCENT OUT OF LINE. THERE MUST REMAIN GREAT DOUBT THAT THE 5 PERCENT WILL DO MUCH TO RESTORE FARMERS' CONFIDENCE SUFFICIENTLY TO ACHIEVE THE GOVERNMENT'S GOALS OF HIGHER PRODUCTION AND SELF-SUFFICIENCY BY 1980. THE MINISTER OF AGRICULTURE HAS CLEARLY BEEN OBLIGED TO COMPROMISE BETWEEN THE ACKNOWLEDGED NEED OF BRITISH FARMERS FOR HIGHER PRICES IN ORDER TO HELP THEM RECOUP THE LAST TWO YEARS' RAPIDLY RISING COSTS AND THE GOVERNMENT'S WISH TO CONTAIN INFLATION WITH THE CONCURRENCE, ALBEIT VERY RELUCTANT IN SOME CASES, OF THE TRADE UNION MOVEMENT AND THE LEFT WING OF ITS OWN PARTY WHOSE CONSENT TO EVEN A VOLUNTARY INCOMES POLICY IS BEING ONLY GRUDGINGLY GIVEN ON CONDITION THAT PRICES, PARTICULARLY FOOD PRICES, CAN BE KEPT FROM RISING STILL FURTHER.

NEVERTHELESS, THE SMALLNESS OF THE DEVALUATION HAS COME AS SOMETHING OF A SURPRISE; AN AMOUNT OF 7 1/2 PERCENT AND EVEN OF 10 PERCENT HAD GENERALLY BEEN EXPECTED.

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